

**REPORT OF
FINANCIAL EXAMINATION**

SOUTHEAST MISSOURI MUTUAL FIRE INSURANCE COMPANY

**AS OF
December 31, 2003**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
SALUTATION	1
INTRODUCTION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures.....	2
Comments - Previous Examination Report.....	2
HISTORY:	
General.....	3
Management and Control.....	3
Conflict of Interest	4
Corporate Records	5
FIDELITY BOND & OTHER INSURANCE	5
EMPLOYEES' BENEFIT PLAN.....	6
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operations	7
Policy Forms and Underwriting Practices	7
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	8
REINSURANCE:	
Assumed.....	8
Ceded	8
ACCOUNTS AND RECORDS:.....	9
FINANCIAL STATEMENTS:	
Admitted Assets	11
Liabilities, Surplus and Other Funds	11
Statement of Income	12
Capital and Surplus Account	12
Notes To The Financial Statements	13
EXAMINATION CHANGES	13

GENERAL COMMENTS AND RECOMMENDATIONS	14
--	----

<u>SUBJECT</u>	<u>PAGE</u>
-----------------------	--------------------

SUBSEQUENT EVENTS	14
-------------------------	----

ACKNOWLEDGMENT.....	15
---------------------	----

VERIFICATION.....	15
-------------------	----

SUPERVISION.....	15
------------------	----

June 25, 2004
Dexter, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a financial examination has been made of the records, affairs and financial condition of the

Southeast Missouri Mutual Fire Insurance Company

hereinafter referred to as such or as the "Company." The Company's home office and principal place of business is located at 18 East Vine Street, Dexter, Missouri 63841, telephone number (573) 624-5561. This examination began June 21, 2004 and concluded June 25, 2004.

SCOPE OF EXAMINATION

Period Covered

The Company was last examined by the Missouri Department of Insurance in 1999 for the year ending December 31, 1998. The current examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by an examiner from the Missouri Department of Insurance.

This examination also included material transactions or events occurring subsequent to December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments - Previous Examination Report

The general comments and recommendations taken from the previous examination report and the subsequent action taken by the Company are described below.

1. Comment: The Company should publish notice of its annual meeting once a week for two weeks in a newspaper published in Stoddard County to comply with Section 380.041(3) RSMo.

Company's Response: The Company agreed to implement this recommendation.

Current Finding: The Company provided copies of notices for the Annual Meeting that ran in the Puxico Press, a local newspaper.

2. Comment: The Company should amend its Articles of Incorporation to establish a six member Board of Directors, or comply with its Articles of Incorporation by electing an additional three members.

Company's Response: The Company agreed to implement this recommendation.

Current Finding: The Company currently has five members on its Board of Directors, which agrees with the Articles of Incorporation.

HISTORY

General

Southeast Missouri Mutual Fire Insurance Company was originally incorporated as Stoddard County Mutual Fire Insurance Company on September 15, 1910. On May 3, 1935, the Company was granted a charter of incorporation by the Missouri Secretary of State as the Southeast Missouri Mutual Fire Insurance Company.

On December 10, 1970 the Company amended its Articles of Incorporation to establish the duration of the Company as perpetual. On March 8, 2001 the Company was authorized to operate as a Part II Missouri Mutual Insurance Company and currently operates under Sections 380.201 through 380.601 RSMo (Extended Missouri Mutual Companies).

Management and Control

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the last Thursday in May, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members.

The management of the Company is vested in a Board of Directors elected from the general membership. The Board of Directors consists of five directors each of whom serves a three-year term. All directors are policyholders of the Company. The Board generally meets quarterly. Directors are compensated \$50 plus mileage for each meeting attended.

Members serving on the Board of Directors as of December 31, 2003 were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term Expires</u>
Paul D. Culbertson 13742 State Hwy WW Dudley, MO 63936	Retired Farmer	2005
Authur Goldschmidt 4596 Hwy FF Fisk, MO 63940	Retired Farmer	2004
Darrell Pyle 23 Circle Hill Drive Dexter, MO 63841	Farmer	2004
Tom Rendleman 25775 County Road 830 Oran, MO 63771	Retired Farmer	2006
J.T. Sentell 17432 Hwy 51 Qulin, MO 63961	Retired Farmer	2005

Immediately following the annual membership meeting, the Board of Directors elects the following officers for a one-year term: President, Vice-President and Secretary-Treasurer.

Officers of the Company serving at December 31, 2003 were:

Darrel Pyle	President
Paul Culbertson	Vice-President
Gary W. Trammell	Secretary-Treasurer

Conflict of Interest

The Company requires conflict of interest statements for the disclosure of material conflicts of interest or affiliations from its directors. A review of the statements for the years under examination revealed no disclosed conflicts.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were amended in 2000 to establish a five-member Board of Directors. This amendment was made in response to a comment from the previous examination.

The minutes of the Membership and the Board of Directors' meetings were also reviewed for the period under examination. The minutes appear to properly document corporate events and transactions. The examination report as of December 31, 1998, was reviewed and accepted by the Company's Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond underwritten by Travelers Casualty and Surety Company of America. The limit of liability is \$250,000. This amount exceeds the minimum suggested in the guidelines promulgated by the NAIC. The bond covers all employees and includes the Secretary/Treasurer and the President.

The Company is a named insured on a policy with NAMIC Insurance Company of Indianapolis, Indiana that provides professional liability and directors' and officers' liability coverage. The limits of liability are \$2,000,000 each claim subject to a \$2,000,000 aggregate limit for all claims during the policy period. The policy has a \$5,000 deductible each claim.

The Company is a named insured on a policy with Grinnell Mutual Reinsurance Company of Grinnell, Iowa. The policy provides workers compensation coverage according to the laws of the State of Missouri. The policy also provides employers liability coverage with liability limits of \$500,000 each accident and \$500,000 each employee for bodily injury by disease.

The Company is a named insured on a policy with Grinnell Mutual Reinsurance Company of Grinnell, Iowa. The policy provides coverage for the Company's building up to \$178,861 with a 2% automatic increase in the limit. Business personal property is covered up to \$18,500. The deductible is \$250 with a 10% earthquake deductible. The policy also provides liability coverage with limits of \$500,000 business liability, \$5,000 per person medical expenses and \$50,000 fire legal liability.

The Company is a named insured on a commercial lines policy that provides business auto coverage. The policy is underwritten by Grinnell Mutual Reinsurance Company of Grinnell, Iowa. The limits of liability are \$500,000 each person/\$500,000 each accident for bodily injury and \$250,000 each accident for property damage. The policy covers a 2003 Ford pickup truck owned by the Company.

The Company is a named insured on a commercial umbrella liability policy with Grinnell Mutual Reinsurance Company of Grinnell, Iowa. The policy has an aggregate limit of \$1,000,000 with a \$10,000 retention for each occurrence for losses in excess of underlying insurance.

The Company requires its agents to carry E&O coverage. A review of agents' files indicated that agents carry E&O coverage ranging from \$1,000,000 to \$5,000,000. The Company does not reimburse agents for E&O coverage.

The Company's insurance coverage appears adequate.

EMPLOYEES' BENEFIT PLAN

The Company has four full-time employees, three office assistants and an inspector/adjuster. Salaries are determined by the Board of Directors. Employees are entitled to paid vacation and paid

sick leave, and are provided health insurance and a Simple IRA plan. The Company maintains an employee handbook and employee job descriptions.

INSURANCE PRODUCTS AND RELATED PRACTICE

Territory and Plan of Operations

The Company operates as a Missouri Mutual Company under Sections 380.201 through 380.601 RSMo (Part II Farm Mutual). The Company is authorized to write fire, wind and liability insurance in all counties of Missouri.

The Company's policies are sold by approximately twenty licensed agents/agencies who receive commissions ranging between 15-20% of premiums written.

Policy Forms and Underwriting Practices

The Company uses policy forms supplied by Grinnell Mutual Reinsurance Company which have been approved by the Missouri Department of Insurance.

Policies are written for a three-year term. Renewal billings are mailed directly to the insured. Rates are determined by the Board of Directors.

Inspections are performed by a full-time inspector/adjuster. Claims adjusting procedures are also performed by the full-time inspector/adjuster. An independent adjuster may be employed on more difficult claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

YEAR	1999	2000	2001	2002	2003
Admitted Assets	1,093,493	1,092,294	1,172,057	1,313,356	1,363,065
Liabilities	58,239	53,049	38,504	234,365	147,504
Gross Assessments	841,242	827,599	1,001,731	1,236,130	1,484,140
Losses Incurred	325,199	300,245	346,012	530,419	370,006
Investment Income	38,514	47,484	47,545	30,358	25,937
Underwriting Income	(62,952)	(45,911)	62,683	(80,420)	115,310
Net Income	(28,914)	3,271	98,389	(54,562)	137,405

At year-end 2003, 2,665 policies were in force.

REINSURANCE

Assumed

None

Ceded

The Company carries reinsurance through Grinnell Mutual Reinsurance Company of Grinnell, Iowa. The following is a summary of the Company's reinsurance coverage.

Individual Occurrence of Loss Excess with Aggregate Excess Plan

This agreement, effective January 1, 1995, covers all policy forms and endorsements issued by the Company when such forms and endorsements have been filed with and accepted by the Reinsurer.

The Company's individual occurrence of loss (IOL) limit is \$100,000. The Reinsurer's limit of liability is detailed in a loss limitation schedule. Exposures that exceed the loss limitation schedule may be facultatively reinsured. Under the aggregate excess portion of the agreement, the Reinsurer indemnifies the Company for 100% of the aggregate net losses in excess of the defined retention limit.

For 2003, the retention limit ("attachment point") was \$657,179.

Facultative Reinsurance

Within thirty days of insuring or increasing coverage on a specific risk, the Company may cede all or part of the risk to the Reinsurer by means of facultative reinsurance. Rates are determined by the Reinsurer on an individual basis.

Special Personal Property Endorsement

The Company cedes 100% of the liability on items insured on the special personal property endorsement.

Earthquake Agreement

The Company has an agreement with Grinnell to write earthquake coverage on forms supplied by Grinnell. Rates are determined by the Reinsurer. Agents must be licensed by the Company and approved by Grinnell. The Company is responsible for premium billing and collection. Grinnell allows the Company a 20% commission.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on a cash basis. The Company's accountant, Jean and Company, CPA, prepares the Company's Statutory Annual Statement and the Company's federal income tax return.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company at December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to their respective totals is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ADMITTED ASSETS

Bonds	\$15,000
Stocks (Note 1)	113,647
Real Estate (Note 2)	47,060
Cash on Deposit (Note 1)	1,047,157
Reinsurance Recoverable	0
Assessments Uncollected	26,359
Federal Income Tax Recoverable	993
Interest Due and Accrued	0
Write-Ins	<u>75,000</u>
Total Assets	<u>\$1,325,216</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses Unpaid	\$119,939
Ceded Reinsurance Payable (Note 3)	32,394
Unearned Premium	0
Commissions Payable	23,300
Federal Income Taxes Payable	<u>4,265</u>
Total Liabilities	<u>\$179,898</u>
Guaranty Fund (Note 4)	\$150,000
Other Surplus	<u>995,318</u>
Total Policyholder Surplus	<u>\$1,145,318</u>
Total Liabilities and Policyholder Surplus	<u>\$1,325,216</u>

STATEMENT OF INCOME

Net Assessment/Premium Income	\$1,070,745
Reinsurance Commission	0
<i>Less: Net Losses</i>	370,006
<i>Less: Underwriting Expenses</i>	<u>585,429</u>
Underwriting Income	115,310
Net Investment Income	25,937
Other Income	<u>165</u>
Gross Profit or (Loss)	141,412
<i>Less: Federal Income Tax</i>	<u>4,007</u>
Net Profit or (Loss)	<u><u>\$137,405</u></u>

CAPITAL AND SURPLUS ACCOUNT

Policyholders' Surplus December 31, 2002	\$1,078,991
Net Income (reported by the Company)	137,405
Accrual Difference from 2002	<u>(835)</u>
Examination Changes (Net)	<u>(70,243)</u>
Policyholders' Surplus, December 31, 2003	<u><u>\$1,145,318</u></u>

NOTES TO THE FINANCIAL STATEMENTS

<u>Note #1</u> (Stocks)	<u>\$113,647</u>
(Cash on Deposit)	<u>\$1,047,157</u>

The Company included a mutual fund in its reported cash. An examination change of \$108,647 was made to reclassify this investment to stocks.

<u>Note #2</u> (Real Estate)	<u>\$47,060</u>
------------------------------	-----------------

The Company reported its office building at original cost. An examination change of \$37,849 was made to reflect the depreciated cost of the building.

<u>Note #3</u> (Ceded Reinsurance Payable)	<u>\$32,394</u>
--	-----------------

An examination change of \$32,394 was made to reflect the Company's December 2003 reinsurance bill that was paid in January 2004.

<u>Note #4</u> (Guaranty Fund)	<u>\$150,000</u>
--------------------------------	------------------

The Company did not report a Guaranty Fund on the Annual Statement. An examination change was made to reflect the Guaranty Fund as required by RSMo. 380.271 (Financial Reinsurance Requirements).

EXAMINATION CHANGES

Total Policyholder Surplus per 2003 Annual Statement:	\$1,215,561
---	-------------

	Increase in <u>Surplus</u>	Decrease in <u>Surplus</u>
Stocks (Note #1)	108,647	0
Cash on Deposit (Note #1)	0	108,647
Real Estate (Note #2)	0	37,849
Ceded Reins. Payable (Note #3)	0	32,394
Guaranty Fund (Note #4)	<u>0</u>	<u>0</u>
Total Increase/Decrease in Surplus	<u>\$108,647</u>	<u>\$178,890</u>

Net Increase/(Decrease) in Surplus	<u>(70,243)</u>
------------------------------------	-----------------

Total Policyholder Surplus per 2003 Examination:	<u>\$1,145,318</u>
--	--------------------

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the directors, officers and employees of Southeast Missouri Mutual Fire Insurance Company in the course of this examination are hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, John M. Boczkiewicz, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2004.

My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe
Audit Manager - St. Louis
Missouri Department of Insurance